

Realty Trust Review

March 12, 1976

VOL. VII, No. 5

INDUSTRY OUTLOOK AND INDIVIDUAL TRUST REVIEW ISSUE

More REIT bankruptcies: Continental bankruptcy brings new uncertainties.....1
 REIT shares and bonds: Can troubled trusts recover any book value?.....3

STATISTICAL PROFILE OF TRUSTS REVIEWED THIS ISSUE

Trust	Port. (Mil.\$)	-% Invest. Condo	In- Land	-Debt Banks	Out-- Other	Loss Res.	Share Equity	Price	Page
Barnett Mtg.	\$250M	36%	18%	\$178M	\$37M	\$29.8M	d\$ 7.4M	\$1.00	4
Chase Man.Tr.	854	16	20	761	135	165.8	d 55.0	3.13	5
Cit.& So. Rl.	476	25	22	341	53	E53.9	E 9.9	3.00	6
Cousins Mtg.	341	11	24	241	40	56.0	19.4	2.63	7
Guardian Mtg.	486	21	34	354	59	73.0	d 8.5	2.38	7
Justice Mtg.	83	19	31	42	26	9.5	9.1	3.63	8
Midland Mtg.	119	30	12	71	26	8.8	14.0	2.00	8
TOTAL/AVG.	\$2,610M	22.6%	23%	\$1,987M	\$376M	\$396.8M	d\$18.5M		

d-Deficit. E-Estimated.

MORE REIT BANKRUPTCIES: CONTINENTAL BANKRUPTCY SIGNALS UNCERTAIN TIMES FOR INVESTORS

Once again Continental Mortgage Investors has given REIT investors a clear signal of more trouble ahead. In November 1971 the trust reported its first quarterly earnings decline in its history and its bearish statement then that the construction lending market was deteriorating badly send REIT shares into a four-year bear market. Now, with a bull market roaring and low-priced REIT stocks often doubling in days, Continental Mortgage has filed for court protection under Chapter XI of Federal bankruptcy laws. Filing by the \$660 million trust is the third largest bankruptcy in U.S. history and doubtless is a personal tragedy for CMI share and bond holders.

But the filing has far bigger implications for every REIT investor, implications which you ignore at your peril. Some of these implications are:

1. Don't be surprised. Many investors were stunned by the filing, since the belief is widespread that the major money center banks will keep the big and very sick REITs alive for this year at minimum. That belief persists even among some creditors inside other institutions, mainly insurance companies. But we have been telling you for the last few issues that this situation was changing rapidly. Last issue we said, "bank pressure on REITs is increasing more than most investors realize. We believe this could result in bankruptcies by a few smaller REITs." On Jan. 30 we noted "bank pressure now as never before" on REITs and suggested that some banks may quit carrying their troubled REITs. So you should have been surprised only by the size of the trust filing bankruptcy.

2. Don't generalize. There are specific reasons for CMI's fall. What happened to CMI is quite simple. Bank of America, the nation's largest and one with a very low exposure to REIT loans, opposed a new credit agreement with CMI because the only way banks could get repaid was through an aggressive swap program. BofA had only \$10½ million out to CMI, very small relative to the bank's size. Too, the bank's lawyers felt that CMI was being hit by so many lawsuits from disgruntled borrowers that po-

KENNETH D. CAMPBELL, EDITOR AND PUBLISHER, BERNARD SOLAS, C.F.A., DIRECTOR OF RESEARCH / AUDIT INVESTMENT RESEARCH, INC., 230 PARK AVENUE, NEW YORK 10017

REALTY TRUST REVIEW, REAL ESTATE DISCLOSURE DIGEST, and special industry investment reports are published by Audit Investment Research, Inc., an independent investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Under no circumstances is anything contained herein to be construed as an offer to purchase or a solicitation to sell any security mentioned. Information has been obtained from sources believed to be reliable and reasonable care has been exercised in compilation, but accuracy or completeness cannot be guaranteed. Expressions of opinion are solely the responsibility of the publisher and may be changed at any time without notice. Advisory services are mailed to reach subscribers no later than the Monday following publication date; Audit's officers, employees and printers are not permitted to trade upon any recommendation until the Tuesday following. Subscriptions may not be assigned without consent and unused portion refunded on request. Copyright © 1976 by Audit Investment Research, Inc., 230 Park Avenue, New York, N.Y. 10017. Telephone: 212/725-1410.

PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS/SUBSCRIPTIONS \$115 ANNUALLY / SINGLE COPY \$7 / BACK ISSUES \$1.25 TO SUBSCRIBERS ONLY
 GROUP RATES ON REQUEST

tential liabilities from judgments for usury, failure to honor commitments, etc. far exceeded stated liabilities. If the banks assented to a credit agreement in which asset swaps were the primary means for repayment, then banks could be opening themselves to these open-ended liabilities, they argued. In the end, two other major banks, Crocker National of Los Angeles, with \$21.8 million out, and Morgan Guaranty Trust of New York City, with \$6.7 million out, sided with Bank of America. Two smaller banks, Bank of Oklahoma and Newton-Waltham Bank, said they definitely wouldn't go along with the new pact, and 20 of the remaining 98 banks lagged on signing the pact.

3. But don't be lulled into expecting easier going for troubled REITs and their banks. There's a chill of unrest in the air and it is quite possible that stronger banks with low exposure to REIT loans will try to pull the plug on other REITs selectively. Recent events:

--IDS Realty Trust has been hit by demands from two banks for immediate repayment of \$25 million. The trust has no intention of repaying without concluding a sought-after \$128 million agreement with all 17 bank lenders. IDS Realty says that unless banks withdraw their demand, it may have to seek court protection. The trust's situation is complicated by presence of \$176 million of subordinated debt, and possibility that banks may be called on to fund \$6.8 million of interest due on these debentures April 1 apparently is the key issue.

--UMET Trust has been hit by a request to repay \$2.8 million, with the amount due in dispute; a second bank controlled by the same holding company is also balking at signing a \$98.6 million restructured credit agreement. Unless the 33 banks can agree, UMET says it may have to seek court protection.

--Dominion Mortgage & Realty Trust has been hit by demands from its line banks that it repay \$20 million by March 18. This situation is confused by existence of a fairly large amount of subordinate debentures--\$11 million--relative to the bank loans. Talks are being held to seek to settle the issue.

--On a positive note, bank and life insurance company lenders to First Mortgage Inv. finally agreed to accept a massive \$470 million debt restructuring in discussion for over a year. Closing is expected by March 29. Banks and insurance companies will convert about \$70 million interest and principal to preferred stock in this deal. If the agreement doesn't close on schedule, a Chapter X petition may be reinstated against FMI, the oldest mortgage trust.

In this climate even extending an expiring agreement while talks continue is becoming a sticky wicket. In this vein LMI Investors said its banks wouldn't extend a credit agreement beyond a Feb. 21 expiration, even though management was unaware of any disagreement over terms of the proposed new pact. LMI was reviewed as "highly speculative" Feb. 13; the NYSE halted trading in its shares and 6-3/4% subordinated debentures pending resolution of the credit uncertainty. Midland Mortgage Investors, reviewed this issue, has received an extension till May 1 on its \$80 million line. American Fletcher Mortgage Investors is seeking an extension from its April 30 deadline on a \$75.7 million line. And C.I. Mortgage Group trading was halted by the S.E.C. because of failure to file its 10-K report, in turn due to delays in completing a \$286.5 million secured credit agreement decided upon last July. The meaning of all this is that things could get tougher for some REITs, often for reasons not apparent to most investors.

4. Some REITs have already buttoned down financing. Recently six trusts have completed \$1.6 billion of refinancing, all at sharply lower cash interest rates. Each agreement calls for the trust to make additional contingent interest payments from earnings in future years, thus effectively tying up earnings of some trusts until 1988. One additional feature is a two-level interest in some agreements, with the trust paying a very low rate (e.g., 1%) while accruing at a higher rate (e.g., 4% or the prime rate) for public reporting purposes; this difference usually becomes a fixed obligation of the trust, which must be repaid. A summary of these agreements:

<u>Trust</u>	<u>Mil. \$</u>	<u>Maturity</u>	<u>Cash Int.</u>	<u>Accrued and contingent interest</u>
Builders Inv. Group	\$374.0M	9/30/83	1% to 3%	115%-125% of prime conting. to 1983
Cit. & So. Realty	396.6	9/30/78	1%	Up to 130% of prime contingent till 1985, payable from 60% of earnings
Guardian Mtg. Inv.	394.0	9/1/78	2%	Up to 130% of prime contingent till 1988, payable from 50%-plus of net
Heitman Mtg. Inv.	170.6	4/30/77	4%	Up to prime accrued; 30% over prime contingent; both payable from 75% of earnings thru 4/30/84
Institutional Inv. Tr.	87.4	11/19/76	1%	Up to 128% of prime deferred and payable at maturity
Tri-South Mtg. Inv.	<u>159.8</u>	12/31/77	1%	Up to 4% accrued; To 130% of prime conting. & payable from 60% of net thru 1984 (1982 if repayments met)
TOTAL	\$1,582.4M			

What is the investor and speculator to make of all this? The investor steers clear of shares of trusts with reduced rate interest and major contingent payments due from future earnings, because the risk/reward ratio is lousy. He may speculate in bonds of some of the trusts with longer-term arrangements if he feels comfortable that interest will continue to be paid. Trusts with long-term agreements and reduced rates are shown in RELATIVE APPEAL RANKINGS. The speculator may buy either the shares or the bonds but only with money he can afford to lose or have tied up in bankruptcy for many years.

Above all, recognize that most trusts not paying dividends remain outside bankruptcy proceedings at the sufferance of their banks, who have the most dollars invested (see table, p. 1). The major money center banks have recently pulled the plug on both W.T. Grant Co., a \$1 billion retailer, and \$660 million Continental Mortgage, saying clearly that the banks will not continue throwing good money after bad. This includes paying interest on subordinate debentures. We realize that a bull market is running, and this begets excitement and an urge to get fully invested. Some of you may actually be seeing everything through such rose-colored glasses that you read but do not absorb or understand our warnings. Please, dear subscribers, be extremely cautious in this period. The lag time for recovery is much longer in real estate than for the general economy, and thus real estate shares can miss one swing of the bull market. It happened in 1963-66 and could happen this time. Impatience can be your worst enemy.

REIT SHARES AND BONDS: CAN TROUBLED TRUSTS RECOVER ANY BOOK VALUE?

The name of the game for REIT managers and speculators in shares and bonds of these troubled REITs is whether they can recover any of the massive provisions for possible loan losses they have been forced to make under accounting rules adopted last June (see RTR, June 13 and 27, 1975). These reserves have now soared to nearly \$2 billion for the industry, or about 20% of the \$9.8 billion non-earning loans and about 11% for total portfolio. The seven troubled trusts reviewed this issue are not much different, also 20% of non-earning loans.

A little arithmetic shows why these trusts must keep constantly working on the job of recovering some of those loss reserves for shareholders' equity. The seven hold \$2.61 billion loans, against which they have provided \$397 million in reserves, for a net portfolio of \$2.21 billion. They owe a grand total of \$2.36 billion, so that liquidation at written-down value would indeed leave this group broke by about \$150 million. This is not much different than the \$19 million deficit in shareholders' equity as shown under the new accounting rules. Clearly something must give or these trusts, as a group, are out of business. (Since there are great variations in portfolio

and management quality, some may in fact be broker than others if this analysis is true.)

So investors in both bonds and shares of these trusts must ask themselves: How will this trust work itself out from under its mountain of debt? And will there be anything left, realistically, when all debt is repaid? Basically there are four ways these REITs can get an out:

1. Principal repayment of existing earning investments, or sale of such good assets. Most bank credit agreements require loan repayments to be applied to loan reduction. And most trusts are reluctant to sell good assets except to solve an extreme liquidity crunch.

2. Asset swaps with banks. Many banks appear willing to continue to swap but the Continental Mortgage bankruptcy suggests this may be a relatively limited way of reducing debt. Swaps have two other deficiencies from the investors' standpoint. Many times only the best quality non-earning assets (i.e., mildly sick properties) are swapped, leaving the trust with the dregs. And banks are more and more insisting they will swap only at or very near the trust's written-down book value. Thus this path may get some bank debt repaid but it could also severely limit opportunities to recover much loss reserves.

3. Sale of non-income properties. Already many REITs are starting to generate some cash flow from sale of condos and single family homes, which probably account for about one-third of all problem properties. But if proceeds are used to pay interest and other operating costs, then debt reduction and recovery of the loss reserve is limited.

4. Mortgage financing on foreclosed properties. The game plan is that foreclosed properties will be restored to income-producing status and then third-party mortgages placed upon them, thus letting the trust apply proceeds to debt refinancing. Right now many long-term mortgage lenders are reluctant to go this route, fearing involvement in a bankruptcy. This fear should fade in time. While this is the most attractive route for a trust and its investors, it also will require the most time and effort. For instance, recycling the problem real estate in a fairly large trust like Citizens & Southern Realty or Guardian Mortgage is equivalent to creating from scratch a company the size of Tishman Realty -- without the geographic and product specialization that a Tishman can build into its holdings. Our judgment is that this path will be extremely difficult and time consuming, not impossible but very chancy.

The seven trusts reviewed are drawn from our list of speculative bonds in the Feb. 13 issue. Please refer to that list for our grading from medium to extreme risk in this group. Please do not construe our reviews as endorsements or recommendations. We receive many requests from subscribers to analyze the biggest and most deeply troubled trusts and do so with the explicit understanding that all are speculative. However, some have better recovery chances than others within the parameters outlined above. As a group these trusts are 75% in non-earning loans, above the industry average. They are in trouble and struggling; we personally doubt any will ever emerge as viable short-term mortgage lenders because history is against that outcome. It is possible some could survive as viable property owners or developers, but again history is not sanguine. All are speculative.

BARNETT MORTGAGE TRUST (About 1--NYSE Susp.) FY March 31

Portfolio: With the addition of \$4 million loss reserve provision in the December quarter, stated book value went negative by \$896,000 but after deducting intangibles, negative book value was \$7 million, \$3.40/sh. The portfolio enjoyed sharp shrinkage last quarter going to \$250 million from \$293 as \$40 million of the \$66 million swap program took place. Holdings as of Dec. 31 remain heavily in troubled categories. The major mortgage categories are: 42% condos, 8% apartments, 14% land and land development, and 11% single family. Major owned properties were 28% condos, 30% apartments

and 23% land. Despite swaps, all for non-earning assets, non-earnings remained 94% of portfolio. Control is being built up with foreclosures representing 34% of holdings and another 30% in foreclosure. The loss reserve provision stood at 12% of all assets, 13% of non-earnings. Projects are nearly completed, few require significant additional funds, about \$10 million all told. Workout of foreclosed properties is progressing as a staff is being reorganized to exercise control (the trust will not qualify for taxation as a REIT this fiscal year and other years). The staff is set up in three groups: income properties, condos and land. Beyond its internal staff, the trust has exclusive use of several independent consultants and contractors. Including these, it has about 50-60 people doing its workouts. Highlights are condo marketing and property management. Fifteen of 57 owned properties were generating some gross income. Good results were had with some garden apartment projects going from 30% occupancy to the 80% range. The Dec. quarter loss was \$1.39/sh. after \$1.40 gain from asset swaps and \$1.92 addition to loss reserves.

Sponsor & financing: Barnett Banks Florida is the trust's sponsor. The trust had \$178 million out under a credit agreement, since reduced by \$29 million. Bearing low interest, the rest contingent, the agreement goes through 1979. There is a requirement, however, that the trust pledge its assets to the bank creditors, the date required was extended to June 30, 1976. The trustees are not anxious to pledge assets, especially since the banks want 120% coverage. The pledge requirement would automatically be extended a month if bank lines are reduced to \$73 million (presently \$161 million). Such reduction will hinge on success of swaps. Loan swaps during recent months were quite good with Barnett coming close to the trust's investment. The trust hopes to maintain a good liquidation ratio in future swaps by requiring bidders to take poorer properties in ratio to good properties, \$2.50 worth of poorest properties for every \$1 of the best, or \$2 of the next poorest for every \$1 of the best. And the prime properties are being offered at 115-140% of cost. The next swap bid dates are March 17 & 24. The trust would like to move another \$75-100 million during these dates. Swaps then are the key to Barnett's near-term financing and long-term viability. This also thins banks in the line. Down to 25 from 29, they hope to be down to 10 with the next swap. Another major financing aspect is that the trust is permitted to use from \$6-8 million to make a cash tender offer for its two subordinated debentures. Not more than 30% of the principal may be paid. The trust deferred interest due March 1 on its debentures which it may do for 30 days without default.

Bonds: Continued success of the swap program is the key to ultimate value left residing with two issues totaling \$47 million. If 40% of bondholders tender, should tender be made, and swaps are successful, positive book value would be restored. Until clarified, there is little further attraction in the bonds although recent events give some positive underpinnings for progress.

Shares: With negative equity, the issue is sheer speculation at the disposition of creditors. (BS)

CHASE MANHATTAN MORTGAGE & REALTY TRUST (3 1/8-NYSE-CMR) FY May 31

Portfolio: About 71%, or about \$605 million, of total \$854 million holdings were not earning income at Nov. 30. The trust indicates there's been little change since that date. About 29% of problem investments are in Florida and another 17% in New York State. By property type, largest problem areas are 22% (or \$136 million) in condominiums; 23½% (or \$142 million) in land and land development loans; and 21% (or \$129 million) in permanent mortgages. The trust has foreclosed \$55 million of property (about 6½% of holdings) and has another \$135 million (or 16%) in foreclosure process or approved for foreclosure. Portfolio problems appear rooted in too rapid growth. In little less than five years the trust soared to a peak \$989 million investments plus \$283 million commitments at February 1975, an average \$250 million net gain in investments per year. At that peak the trust braked growth sharply and began making major provisions for possible losses that reached \$144 million in fiscal 1975. Last September the trust sold \$160 million loans to its adviser, Chase Manhattan Bank, for principal and accrued interest, with the bank assuming \$34 million funding commitments. These loans were 54%

non-earning at the time.

CMR is circulating \$423 million (about half of holdings) to its banks under an asset exchange program. The trust set minimum prices which are not less than estimated net realizable value (i.e., written down value). Banks will bid March 16 on how much debt they will cancel in exchange for each asset, and the trust must accept these bids. Most assets on this swap list are non-earning. The list does not include the trust's largest single unproductive investment, \$71 million in Palmas del Mar, a 2,700-acre luxury destination resort in Puerto Rico that recently was taken over by new management. Condo and land sales there are reported improving but still slow. Other major non-earning loans include a \$20 million second mortgage in Colony Square, Atlanta office complex now in Chapter XII. Condo sales are reported good at projects with marketing programs, but getting possession is a slow process. On balance, a portfolio of this size and complexity likely will require significant workout time.

Sponsor: Chase Manhattan Bank, third largest U.S. bank. Financing: Chase's 41-bank line agreed last Oct. 6 to cut cash interest on Chase's \$761 million line to 2%. The trust must also pay all available cash income over the 2% rate up to 115% of the prime rate, with the difference payable from taxable income through Jan. 1, 1983, when it will be forgiven over five years. The agreement expires Dec. 31, 1976, except that six-month and one-year extensions are automatic if the trust repays \$75 and \$112½ million respectively (excluding debt cancelled in asset exchanges). Cumulative contingent interest was \$38.9 million at Nov. 30.

Bonds: Chase's three public bond issues are all NYSE-listed and traded actively. They include \$50 million principal of 7-7/8% senior notes due May 1, 1978 (priced at 67); \$60 million of 7½% subordinated notes due 1983, (price 44¼); and \$23.9 million 6½% debentures convertible at \$55 and due 1996 (price 38). We regard all issues as extremely speculative because maturity of the senior notes in little more than two years implies near-impossible liquidation by that date. Even with major bank sponsorship, we doubt that other banks will put up money to repay this debt.

Shares: Not suitable for even the gutsiest speculator. We are short. (KDC)

CITIZENS & SOUTHERN REALTY INVESTORS (3--NYSE-CZS) FY Sept. 30

Portfolio: About 74% of \$475.8 million investments were non-earning at Dec. 31. Holdings are rapidly moving from loans to owned real estate, although exact level of acquired property is not available currently. Major holdings are in Georgia, 41%, and Florida, 26½%. Dominant property types are condominiums, 25%, and land and land development loans, 22%. Condominiums being marketed are reported selling at about 100 units monthly but even at that rate the trust has a 2½-year supply. Some interest is being shown in a few developed subdivisions but about 70% of holdings are "dirt"--zoned land without streets, utilities, etc. needed to ready it for building. Recovery in this category is expected to take some time. Apartment occupancies are said to be improving into the 90% range in many markets, and even hard-hit Atlanta is improving with some selective movement toward higher rents. Time will be required to bring acquired units to profits high enough to support new mortgages. The trust is not heavily exposed to the overbuilt Atlanta office market.

Sponsor: Citizens & Southern National Bank, major Atlanta bank. Financing: C&S signed \$396.6 million new credit agreements with its domestic and foreign banks in January, dropping the cash interest to 1% but with contingent interest up to 130% of prime payable from 60% of taxable income through Sept. 30, 1985. The agreement expires Sept. 30, 1978. A \$15 million private placement expiring Oct. 1, 1976 will likely be repaid by the bank, with the trust adding this amount to debt due under the credit agreement.

Bonds: CZS has \$30 million of 6-3/4% subordinated debentures due Oct. 15, 1978 (priced about 38). The debentures may be used at par to exercise Series A warrants. Under present conditions the warrant exercise price, based upon share prices in October 1977, would give debenture holders control of the trust with about 10 million new shares if they chose to exercise. The bonds thus have a special speculative appeal, although 2½ years to maturity is a very short fuse. It appears interest will be paid under the new credit.

Shares: CZS lost \$15.31/sh. in fiscal 1975 and another \$0.20/sh. in the December quarter, largely because of major loss provisions. While management is capable, size and complexity plus possible dilution do not make the shares attractive speculations. (KDC)

COUSINS MORTGAGE AND EQUITY INVESTMENTS (2 5/8--NYSE-CUZ) FY Aug. 31

Portfolio: In the February quarter, the trust achieved its first big asset reduction, \$35 million under asset swaps. As of Nov. 30, the \$341 portfolio was 72% non-earning with 54% of assets foreclosed and 14% in foreclosure. A third of those loans in process have since been acquired. The portfolio has tough workout categories: 24% land, 10½% condos and 16% motels. Moreover, the problems are mostly in overbuilt areas: Florida, Georgia and Texas. But the trust is taking an active workout role. The trust's staff is organized functionally by property types, e.g., condos and apartments, land, motels, etc. The staff is becoming more effective, already obtaining improvements. With \$35 million of \$50 million bids already signed over, the trust is off to a good start. Prices were from 30% discount to par of trust's invested cost. Naturally, these were the best operating properties of the non-earning category. The \$56 million loss reserve was 16% of assets, 23% of non-earnings. The \$0.39/sh. loss in the Nov. quarter whittled tangible book value down further to \$17 million, \$4.46/sh. However, since so much of assets are in land which is not very liquid, it will take a long time to realize earning power of what are likely to be the last remaining assets.

Sponsor & financing: Cousins Properties, substantial Atlanta developer is sponsor. There was \$240 million out (now about \$205) under a credit agreement maturing Dec. 31, 1976. Interest is 4% plus contingent payment. Renewal will probably depend on the extent of loan swaps and workout success the rest of the year.

Bonds: Interest appears reasonably secure intermediate term on the \$30 million of 6½s, due 1982. While there is some book value behind the bonds after what are believed adequate reserves, the longer term rests on continued bank cooperation.

Shares: Given continued bank support, there may be ultimate recovery. (BS)

GUARDIAN MORTGAGE INVESTORS (2-3/8--NYSE-GMI) FY Feb. 28/29

Portfolio: GMI is now well along the road in obtaining control of its problem properties and has acquired \$145 million of investments, or about 30% of \$486 million total holdings. About \$14 million of acquired properties are earning some return and management is stressing putting as much property as possible on a sustaining basis (i.e., rents covering operating costs). Special emphasis is going to apartments and motels, plus sale of condos. About one-third of acquired properties are held as mortgagee-in-possession, a legal status in which the trust operates a property for benefit of original borrowers. Remainder are held with full title. At Nov. 30, GMI's portfolio was about 80% non-earning or acquired, a slight rise from previous quarters.

Earning mortgage loans have fallen by \$86 million since the February 1975 fiscal year-end and could fall a bit more from the recent \$92 million as good loans are repaid and bad loans enter the foreclosure process. So far GMI hasn't had any judgments against it for usury, etc. in its foreclosure program. However holdings are heavily in today's tougher workout categories, 34% in land and land development loans and 21% in condos. This points to complex and lengthy workout.

One exit is a swap program. GMI's present swap program, which brought about \$20 million swaps, expires March 29 and will be replaced by an expanded program. Management ultimately hopes to take care of about one-third of senior debt--or about \$120 million--via swaps. Management feels swaps could provide significant opportunity to recapture some of its loss reserve, now standing at \$73 million. Pricing is crucial in any recapture but management feels that some banks may be able to place higher values on property than REITs because of their more stable and lower cost of capital, a key ingredient in setting value. This could be especially true for land, which likely must be held the longest with a resulting higher interest cost to carry.

Sponsor: The mortgage banking subsidiary of Charter Co., diversified Jacksonville, Fla. company. Financing: GMI's revised \$394 million credit became effective Dec. 1 with minimum cash interest of 2%. The difference between 2% and 130% of prime through

loan maturity Sept. 1, 1978 is payable from not less than 50% of earnings through Sept. 1988.

Bonds: Major interest is in \$25 million principal of 7½% senior subordinated notes, due Dec. 1, 1979. Interest should be kept current under the new line. While the price of 30-3/8 provides high current yield, 3½-year maturity makes bonds highly speculative.

Shares: GMI lost \$16.39/sh. in the nine months to Nov. 30, after adding \$36 million to loss reserves. With negative \$3.61/sh. book value, shares are high risk. (KDC)

JUSTICE MORTGAGE INVESTORS (3 5/8--NYSE) FY Sept. 30

Portfolio: Texas based, this is where 55% of holdings are with 19% in Colorado. Non-earnings are thought to have stabilized at \$57 million, 70% of assets. Their short-term course from here hinges on success of the coming swap program, bids for which will be made in April. All large projects are completed. Reasonable aggressiveness has been shown in foreclosure, now 30% of portfolio. Another 25% was in foreclosure process with obtaining title the biggest problem. The category mix has its share of real estate's tougher lines: 19% condos and 31% land. Even in apartments, all the trust's loans are non-earning. Workout activity is starting with some transactions for a few million dollars. Although land holdings are heavy, the close urban proximity may enable them to be moved quicker than most other land. The loss reserve was \$9.5 million, 11% of assets and 17% of non-earnings. The \$9.5 million reserve addition brought the 1975 loss to \$12.9 million, reducing book value to \$8.5 million, \$7.16/sh. Prospects hinge greatly on the coming swap program where the trust would like to dispose of \$31 million. Using an open list for bids, minimum prices will be around trust's gross investment.

Sponsor & financing: Glenn Justice Mortgage Co., Texas mortgage banker, is the sponsor. It was experiencing financial difficulties but said the sale of a 700-unit apartment project in Colorado pretty much cured them. Negotiations are underway with 13 line banks to renew the \$42 million loan agreement. The outlook for renewal is favorable. The banks, however, have obtained pledges of all the trust's assets, a 2-to-1 ratio, to secure their line.

Bonds: Although a fair amount of equity still exists on the balance sheet behind the \$20 million of 7 3/4s, 1979, repayment of the senior debt without too much discount from face asset value is vital. Otherwise, it is theoretically possible assets could be consumed to repay prior debt. Therefore, swap success is crucial.

Shares: Even though below book value, value depends on workout progress. (BS)

MIDLAND MORTGAGE INVESTORS (2--NYSE-MMT) FY June 30

Portfolio: Holdings are predominantly urban, with about 41% in Florida, 19% in Oklahoma, and 10% Colorado. Apartments account for 35% of holdings, with condos 30% and tough land and land development 12% at Dec. 31. At that date about 59% was non-earning, including 15.6% foreclosed property. In addition 13.9% of holdings are foreclosures classed as investment property, so that about 30% of holdings have been foreclosed. Condo sales are reported better than last year, especially in Florida where seven projects are held. Two remain in foreclosure, the rest are owned and being marketed. Apartment occupancies in the 700 acquired units are up but utility costs restrict profits.

Sponsor: Midland Mortgage Co., Oklahoma City mortgage banker. Financing: MMT has received an extension till May 1 to try and conclude a proposed \$80 million credit agreement, down from an earlier \$100 million credit. A 3½% cash interest is being paid pending the outcome. Management believes banks are working cooperatively but cannot be certain.

Bonds: The \$19.3 million of 8% senior subordinated notes is due 1980. At price of 57, current yield is reasonably good and should be maintained, pending the credit pact.

Shares: A new credit agreement could slow recent losses which erode equity of \$5.89/sh. However contingent interest will be required. Shares have moderate speculative appeal. (KDC)